



Legislative  
Services Agency

# MINUTES

## Legislative Property Tax Study Committee

November 7, 2007

Second Meeting

### MEMBERS PRESENT:

Senator Joe Bolkcom, Co-chairperson  
Senator Staci Appel  
Senator Roger Stewart  
Senator Ron Wieck  
Senator Mark Ziemann

Representative Phil Wise, Co-chairperson  
Representative Tyler Olson  
Representative Jamie Van Fossen  
Representative Roger Wendt

#### Public Members (Nonvoting):

Ms. Lu Barron  
Ms. Margaret Buckton  
Mr. Rick Dickinson  
Ms. Christine Hensley  
Mr. Tim Johnson  
Mr. Edward T. Wallace  
Mr. Terry Wegener  
Mr. Tom Zucker

#### Governor's Appointees (Nonvoting):

Mr. Dale Hyman, Department of Revenue  
Mr. Charles Krogmeier, Department of  
Management  
Mr. Vince Lintz, Department of Economic  
Development

## MEETING IN BRIEF

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Organizational staffing provided  
by: Susan Crowley, Senior Legal  
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Minutes prepared by: Mike  
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- I. Procedural Business
- II. Taxation of Assisted Living Facilities
- III. MH/MR/DD Funding
- IV. City Revenues and Expenditures
- V. Rollback History and Trends
- VI. Perspective on Commercial Development
- VII. City of Des Moines Perspective
- VIII. Local Economic Development Panel
- IX. Committee Discussion
- X. Materials Filed With the Legislative Services Agency



## Legislative Property Tax Study Committee

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### I. Procedural Business

**Call to Order.** The second meeting of the Legislative Property Tax Study Committee was called to order by Co-chairperson Bolkcom at 10:07 a.m. on Wednesday, November 7, 2007, in Room 103 of the State Capitol in Des Moines, Iowa.

**Approval of Minutes.** Co-chairperson Wise moved that the minutes of the first meeting of the Committee held on September 17, 2007, be approved as previously distributed. The motion was seconded by Senator Stewart and adopted by voice vote.

**Introductory Comments.** The members of the Committee reintroduced themselves with Co-chairperson Bolkcom commenting that this Committee's work is important to residential property taxpayers and commercial property taxpayers because of the property tax burden imposed on them as well as the revenue needs for school districts.

**Adjournment.** The Committee was adjourned at 3:28 p.m.

### II. Taxation of Assisted Living Facilities

Dr. Cindy Baddeloo, Deputy Director, Iowa Health Care Association, made comments concerning the taxation of assisted living facilities along with comments on the assisted living programs (ALPs) in Iowa. Assisted living is defined in Code chapter 231C as "housing with services which may include but are not limited to health-related care, personal care, and assistance with instrumental activities of daily living to three or more tenants in a physical structure which provides a homelike environment."

In Iowa there are 253 assisted living programs, or 8,500 units, with an average program size of 33 units. Seventy percent of ALPs are located in rural areas of the state. The average age of residents who are involved in ALPs is 87. The residents typically require assistance from the ALP with transportation, laundry, housekeeping, medication management, and bathing. The health conditions present are primarily hypertension, arthritis, depression, osteoporosis, dementia, and congestive heart failure.

The ALP residents pay commercial property taxes as part of their assisted living rates. This tax rate adds \$100-\$200 a month to their living expenses. The residents' Social Security and other income must cover their room, board, and this increased property tax rate.

Dr. Baddeloo stated that the Iowa Health Care Association's recommendation is for ALPs to have their property classified as residential. Last year, the Fiscal Services Division of the Legislative Services Agency estimated the cost of this reclassification at \$3.5 million.

Dr. Baddeloo introduced Ms. Jeanine Chartier who owns and operates two ALPs in rural Iowa. Ms. Chartier stated that her facilities are located in small communities where the property tax totals about \$154 per month for each unit in the assisted living facility. The residents need about \$1,100 per month to cover costs but only receive a little over one-half of that from Social Security. She added that she knows of specific instances where individuals have moved to Nebraska so that they may be covered by that state's Medicaid.



In response to a question as to why Iowa Health Care Association is recommending a residential classification for assisted living facilities but not for nursing homes, Dr. Baddeloo stated that nursing homes receive more reimbursement from Medicare and Medicaid.

### III. MH/MR/DD Funding

**Department of Human Services.** Mr. Charles Leist and Mr. Jim Overland, Division of Mental Health and Disability Services, Department of Human Services, provided the Committee with the latest figures for mental health, mental retardation, and developmental disabilities (MH/MR/DD) funding. These include federal funds for Medicaid Waiver Groups, (Medicaid) Iowa Plan, and the Iowa Care Plan in the amounts of \$206.03 million, \$62.03 million, and \$60.88 million, respectively, and from the state for these three equal to \$42.89 million, \$35.51 million, and \$2.16 million, respectively. The federal government also provided block grants totaling \$20.49 million. The state will provide funding to counties in the way of property tax relief for FY 2007-2008 amounting to \$56.48 million for mental health allowable growth and \$88.40 million for property tax replacement. The counties themselves will raise, for FY 2007-2008, \$119.43 million from property taxes.

According to the pie chart distributed by Mr. Leist, county expenditures for FY 2005-2006 totaled \$290.09 million of which the largest portion, equal to \$153.03 million, represented the mandated services which are the growth areas. It was noted that the intent in the middle 1990s was for the state to provide 50 percent of the county expenditures and 100 percent of the growth in expenditures, which has been accomplished.

Mr. Leist pointed out that the growth area in expenditures has decreased from \$190 million for FY 2000-2001 to \$153 million in FY 2005-2006 because the state has placed a number of these expenditures under the Medicaid program.

**Iowa State Association of Counties.** Ms. Linda Hinton, Government Relations Manager, Iowa State Association of Counties (ISAC), provided input to the Committee on issues surrounding the property tax support of the county-managed MH/MR/DD service delivery system. She distributed a number of handouts that include a history of the MH/MR/DD partnership, MH/MR/DD funding and fund balances, levy rates, and a funding formula flow chart. Ms. Hinton stated ISAC's recommendations and improvements which include development of a defined set of core community-based services; transition from the concept of legal settlement to one of residency; creation of a funding formula that is directly linked to the individual receiving services; expansion of the state-operated risk pool and creation of local risk pools; allowed growth that takes into account inflation, growth in the numbers served, and investments in improvements in the service delivery system; and continued sufficient funding of the state payment program to allow the county of residence to provide the same services at the same reimbursement rate to persons with no county of legal settlement.

She emphasized that the funding formula needs to be based on data that is one year older. For example, at present the formula is based on balances as of June 30, 2007, which will be known just before the 2008 Legislative Session. It would be better to have the June 30, 2006, balance be used for FY 2008-2009. Ms. Hinton responded to questions by stating that at the time of the passage of S.F. 69 in 1995, a regional levy for geographical areas was not deemed workable and



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that at present property tax dollars are not pooled but there is regional sharing of services. In addition, there is less of a difference in core community-based services from county to county because some counties have trimmed the amount of services provided, thus resulting in the core community-based services being more equal between counties.

### **IV. City Revenues and Expenditures**

Mr. Jim Fausett, Mayor of City of Coralville, and Mr. Alan Kemp, Acting Executive Director, Iowa League of Cities (league), discussed the total revenues and expenditures of cities for FY 2007-2008. It was noted that the revenues are broken down into six categories: proprietary fund, permanent fund, capital projects fund, general fund, special reserve fund, and debt service fund, with the last three funds being composed primarily of property taxes. These last three funds account for a total of 48.24 percent of all the cities' revenues. Pie charts were provided that show the revenues and expenditures by various types. Total property taxes generated 52 percent of revenues with an additional 9 percent coming from other city taxes. Most of this 9 percent is generated by the taxes on electricity and natural gas providers that are replacement taxes for property taxes on those providers' property. Additional pie charts were provided for revenues based on population. There are four groupings: population less than 500; 500-1,999; 2,000-7,999; and 8,000 and over. Mr. Kemp stated that 50 percent of cities have a population of less than 500 and as the population of cities grows, so does the reliance on property tax. It was postulated that this is due to the smaller communities having a higher percentage of residential taxable value with the larger cities having more commercial/industrial property.

Mr. Kemp also provided information on various expenditures by population. Public safety makes up, on average, 44 percent of general fund expenditures. Mr. Kemp pointed out that the actual percentage of total revenues used for public safety is low because the general fund, which includes public safety, only represents 24.8 percent of all revenues.

A look at tax increment financing by the same population groupings indicated that it is used less in smaller cities and the most in the largest cities, except that the city of Ames does not use tax increment financing.

Mr. Kemp concluded the presentation by noting the listing of various alternative revenue sources used in other states. He emphasized that the league is not recommending any of these. Mr. Kemp stated that alternative revenue sources could be used for both property tax replacement and revenue enhancement. The use of the state sales tax rebate to help finance the Newton racetrack was looked upon with favor by cities as an alternative revenue source that would allow a city to provide economic development incentives, he said.

### **V. Rollback History and Trends**

Mr. Jeff Robinson, Fiscal Services Division, Legislative Services Agency, provided the Committee with data related to the assessment limitation on property valuation, i.e., the rollback. His presentation involved the past history of the rollback and its effects and projected rollback percentages. He noted that the legislation that established both the rollback and the valuation of



agricultural property based upon productivity was enacted during the late 1970s, a time of high inflation.

For FY 2007-2008 the rollback is 45.56 percent for residential property and 100 percent for all other classes of property. However, agricultural property, being valued on the basis of productivity, is taxed on average statewide at 25 percent of its actual value. As a comparison, the effective tax rate based on actual value is 1.6 percent for residential, 3.8 percent for commercial, 3.6 percent for industrial, and 0.7 percent for agricultural.

Mr. Robinson compared the share of statewide taxable valuation by class of property from the 1988 assessment year to the 2006 assessment year. While residential increased from almost 43 percent to 48 percent and commercial from 18 percent to 28 percent, agricultural decreased from 36 percent to 20 percent. He noted that a lot of the increase in the share of commercial property from the 1997 assessment year to the 2007 assessment year is due to new construction. Commercial valuation has increased by 60 percent while residential has increased by 40 percent.

Mr. Robinson stated that his chart shows that originally all classes of property received rollbacks, but that once high inflation abated, only residential valuation was being rolled back. He then described the assessment limitation law. The law limits statewide growth in taxable value due to revaluation of existing property to no more than 4 percent per year. This calculation determines the percentage of a class of property's actual value that will be taxable. Once the rollback, if any, is determined, that percentage is applied to new construction. In addition to the 4 percent limit, residential and agricultural property are further limited if the taxable value growth due to revaluation in either class is less than 4 percent. So far, residential growth has never limited agricultural taxable values and should not do so in the foreseeable future, he said. Mr. Robinson stated that without this tie to agricultural property growth, the shift in tax burden from residential property to commercial property would have occurred to a lesser extent over the same time period.

The rollback for residential property is not expected to decline in the next few years due to the projected increase in agricultural values. Total taxable valuation has grown at an average annual rate of 2.6 percent over the most recent six years. The projection for the next six years is an average annual growth rate of 5.6 percent. Mr. Robinson cautioned that this projected growth can be affected by a slowdown in home construction, significant inflation, crop failure, and massive increases in farm input prices. Co-chairperson Wise requested that Mr. Robinson provide a projected revenue stream based upon this projected growth over the next six years.

## **VI. Perspective on Commercial Development**

Ms. Loree Miles, President, Miles Properties, LLC, discussed the impact of property taxes from the perspective of a private developer of commercial property. She has developed commercial property in California, Colorado, and Iowa (metro Des Moines area). She noted that development impact fees in Colorado and California are numerous and costly; in Iowa such fees are limited in number and extremely inexpensive. However, the property taxes assessed in Colorado and California are relatively low compared to Iowa. She stated that developers of commercial property favor paying high impact fees up front, rather than an annual high property tax bill, because those impact fees can be capitalized as part of the initial cost of development and are paid off as the



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development finance costs are eventually retired. She said it also makes more sense for local governments to charge high impact fees to cover the cost of infrastructure necessitated by development, rather than collecting revenue slowly over time through property taxes. Ms. Miles provided the Committee with examples of the types of impact fees charged in Colorado and California.

### **VII. City of Des Moines Perspective**

Mr. Richard Clark, City Manager, City of Des Moines, gave a presentation related to the City of Des Moines. Mr. Clark stated that the city relies too much on property taxes. A recent survey indicated that property taxes are the least preferred method to pay for services, while user fees and sales taxes are the most preferred. In comparison with surrounding cities, Des Moines' tax rate at \$16.59 per \$1,000, is the highest. Reasons for the high rate of tax include the fact that 40 percent of property in the city does not pay tax; aging infrastructure requires increased investments funded by tax-supported bonds; high demand for professional police and fire services; reduced state appropriations over time; lack of service consolidation; and Des Moines' low residential valuations compared to surrounding suburbs. With regard to Mr. Robinson's projection of growth in the taxable value base of residential property, Mr. Clark noted that Des Moines is seeking to reduce its reliance on property tax. Mr. Clark detailed the actions taken by the city to reduce property taxes. These included reducing staffing levels and tax rates, raising fees for services, negotiating lower employee health insurance costs, incorporating smarter work processes such as automated garbage pick-up, and raising franchise fees. With regard to franchise fees, he noted that the fees raise \$14.1 million annually from gas, electricity, and cable, and the revenues resulted in an additional 12 police officers and 24 fire fighters being hired, library hours being extended, and a reduction of \$.70 in the property tax rate. The library system is a good example of the potential for service consolidation. Mr. Clark stated that the cities in the Des Moines metro area have fine library facilities, but there has been no movement in the direction of consolidation into one system.

Mr. Wegener queried Mr. Clark on how high the franchise fee would go. Mr. Clark stated that the Iowa Supreme Court ruled that the fee had to be justified by the cost of maintaining the franchise, but he hoped the General Assembly would allow cities to go beyond that. Ms. Hensley said that most cities have fees of between 3 to 5 percent, and, if allowed, Des Moines might charge between 7 and 12 percent.

Mr. Clark stated that Des Moines' general and debt service funding sources consist of 58 percent property tax, which far exceeds those in comparable cities that have diversified their revenue sources. He cited Dayton, Ohio, where property tax accounts for 12 percent of city revenues; Lansing, Michigan, with 34 percent; Omaha, Nebraska, with 30 percent; and Austin, Texas, with 39 percent. Mr. Clark concluded by stating that the method of financing local government in Iowa must be changed by diversifying revenue streams, providing incentives for consolidating services, and encouraging smart growth development initiatives. In the short term, however, he urged enactment of legislation affirming a city's authority to impose a franchise fee on gas and electric consumption.



### VIII. Local Economic Development Panel

A panel comprised of representatives from the cities of Council Bluffs, Coralville, Humboldt, and Des Moines related their experiences in undertaking economic development activities in each of their cities.

**Mayor Tom Hanafan and Mr. Donald Gross.** Mr. Hanafan, Mayor, and Mr. Gross, Community Development Director, representing Council Bluffs, stated how Nebraska jurisdictions have the benefit of a better tax climate. They also described their efforts to bring Google to Council Bluffs. The city had advantages due to availability of buildings, utility capacity, electric availability and rates, land, and metro workforce. The city used tax increment financing (TIF) initially to construct the spec building that Google will occupy. However, the TIF incentives are being transferred to the High Quality Jobs Program. They noted that the city has 15 active TIF areas from which a total of \$1.3 million is allocated for project debt. The 15 areas have generated an additional \$40.6 million in taxable valuation.

**Mr. Kelly Hayworth.** Mr. Hayworth, Coralville City Administrator, described the extensive brownfield redevelopment undertaken by the city as part of its economic development and revitalization efforts at Coralville's Iowa River Landing. Coralville utilized TIF, revenue bonds, and general obligation bonds, in addition to state and federal funding, for redevelopment of the land in the project to an entertainment, retail, and residential district. Cleanup of 160 acres of brownfields was a major aspect of the project. Brownfields are idled, abandoned, or underused industrial and commercial property whose resale or redevelopment has been hindered by known or suspected environmental contamination at the site. He stated that over the past six years the federal and state governments have invested over \$16 million for acquisition, assessment, and cleanup of brownfield sites in Iowa. He described state brownfield incentives in Missouri, Wisconsin, and Michigan.

**Ms. Lorie Bennett.** Ms. Bennett, Humboldt City Administrator, stated that 80 percent of economic growth in the county comes from the expansion of current industries within the county, and there is a large amount of "home-grown" businesses. Humboldt faces a number of issues such as obtaining viable leads on economic development activity, distance of the city from interstate highways, low workforce availability, and low property taxes in other states. For purposes of economic development, the City of Humboldt utilizes state programs, such as High Quality Jobs Program, Enterprise Zones, and Revitalize Iowa's Sound Economy (RISE), in addition to local incentives and the United States Department of Agriculture's rural development programs. Tax increment financing is the largest tool in Humboldt's economic development toolbox, said Ms. Bennett. Tax increment financing is used for infrastructure improvements, brownfields cleanup, residential development, and to provide rebates on property taxes after completion of a project. One of Humboldt's TIF areas includes a brownfield which will be converted to a new 50-acre industrial park. She noted that the affected school district, county, and community college have all supported Humboldt's use of TIF because of the long-term benefit to all of these entities of the higher taxable valuation created by the development.

**Mr. Richard Clark.** Mr. Clark outlined the key issues affecting Des Moines' economic development efforts. The cost of development is high in older urban centers because of the cost of land assemblage and relocation, demolition, environmental remediation, structured parking,



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vertical construction, and rehabilitation/restoration of existing buildings. Even with these high costs, urban center development is more desirable than greenfield development because urban center development takes advantage of existing infrastructure and other public and private investments in the area. At the local level, Des Moines provides financial assistance to development through use of TIF and tax abatement, infrastructure assistance, reduced land prices, and parking. He noted that TIF is the single most important economic development tool available to cities. Mr. Clark stated that a statewide policy needs to be developed that helps sustain and rebuild older urban centers. This can be done through funding assistance for brownfield remediation, incentives for smart growth policies, expanded use of investment tax credits, and more flexible use of urban revitalization's tax abatement. This policy needs to include continued ability to use TIF, more collaboration among the various public entities providing economic development assistance, a commitment by the state not to give preference in the award of state incentives to businesses that are relocating from one Iowa city to another Iowa city, and continued and expanded use of "fair play agreements" among cities in a region.

### IX. Committee Discussion

**Discussion.** Co-chairperson Wise asked staff the status of queries to potential consultants. Ms. Susan Crowley, Legal Services Division, Legislative Services Agency, said she had sent a letter to seven people recommended by the National Conference of State Legislatures (NCSL) and has received five responses. She had asked them to send their biographies and a list of publications. The Committee discussed having staff start work on developing a scope of services to provide to potential consultants. Co-chairperson Bolkcom stated that the Committee needs to be extraordinarily clear on what type of information the consultant should provide which should include information on successes of other communities and states and information regarding alleviating the property tax burden through a mix of state support to local governments and alternative sources of revenue.

Representative Wendt stated that the Committee should first decide if it wants to hire a consultant. Co-chairperson Wise explained that leadership had told him to see what NCSL could provide in the way of consulting services. The NCSL told him it could not meet the Committee's needs, so he directed staff to see about a private consultant.

Ms. Hensley stated that, as a result of the first two meetings, the Committee has a solid foundation of information. A consultant would be helpful to objectively validate that information and then make comparisons with other states. An independent person or group would have a higher level of credibility than would an interest group representing Iowa taxpayers.

**Next Meeting.** The next meeting of the Legislative Property Tax Study Committee is set for Wednesday, December 5, 2007, in Room 103, State Capitol, Des Moines, Iowa.

### X. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet Webpage:





<http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=209>.

1. 2007 Legislation Summaries — Legislative Services Agency.
2. LOST Revenues by City — Legislative Services Agency.
3. City Nonproperty Tax Revenue — Department of Management.
4. Taxation of Assisted Living Facilities — Dr. Baddeloo and Ms. Chartier Presentation.
5. MH/MR/DD Funding Report — Mr. Leist and Mr. Overland Presentation.
6. 2006 County MH/MR/DD Expenditures Chart — Mr. Leist and Mr. Overland Presentation.
7. MH/MR/DD Funding — Iowa State Association of Counties — Ms. Hinton Presentation.
8. Iowa Property Taxes — Iowa League of Cities — Mayor Fausett and Mr. Kemp Presentation.
9. City of Humboldt Budget — Iowa League of Cities Presentation.
10. Rollback — Past and Future — Mr. Robinson Presentation.
11. Private Commercial Developer Perspective — Ms. Miles Presentation.
12. City of Des Moines Property Taxes — Mr. Clark Presentation.
13. Local Economic Development Panel — Council Bluffs — Mayor Hanafan and Mr. Gross Presentation.
14. Local Economic Development Panel — Coralville — Mr. Hayworth Presentation.
15. Local Economic Development Panel — Humboldt — Ms. Bennett Presentation.
16. Local Economic Development Panel — Des Moines — Mr. Clark Presentation.

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